

Message Text

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71

ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

AF-08 ARA-06 EA-07 NEA-10 OIC-02 /134 W

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R 101733Z NOV 76

FM USMISSION GENEVA

TO SECSTATE WASHDC 3507

INFO AMEMBASSY ROME

USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: GATT, ETRD, IT

SUBJ: GATT WP ON ITALIAN PRIOR DEPOSIT MEASURES

REF: (A) STATE 273369; (B) STATE 275086

BEGIN SUMMARY. WP INCLUDED DISCUSSION OF ITALIAN 7 PERCENT SURCHARGE AND URGED EARLY PHASEOUT OF DEPOSIT MEASURES. END SUMMARY.

1. DURING NOVEMBER 8 GATT WP ON ITALIAN IMPORT DEPOSIT MEASURES, CHAIRMAN (IRANZO) NOTED THAT 7 PERCENT FOREIGN EXCHANGE SURTAX HAD BEEN INTRODUCED AND WP COULD ADDRESS TRADE EFFECTS OF SAME. EC DESCRIBED SURCHARGE BUT SAID IT COULD NOT BE CONSIDERED ON SAME LEVEL AS DEPOSIT, AS DEPOSIT HAS ALREADY BEEN SUBJECT OF COUNCIL DISCUSSION. ITALY GAVE VARIOUS INCOHERENT STATISTICS ABOUT BOP SITUATION, THRUST OF WHICH WAS TO SUGGEST ITALY'S BALANCE OF PAYMENTS NOT HEALTHY. ITALY REAFFIRMED PLAN

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TO PHASE OUT PRIOR DEPOSIT SCHEME AND NOTED THAT SUR-

CHARGE IS IN EFFECT ONLY UNTIL 18 FEBRUARY 1977 AND MIGHT BE ELIMINATED SOONER. ITALY SAID THEY TRYING ASCERTAIN IMPACT OF SURCHARGE AND WOULD MAKE "EVERY EFFORT TO ABANDON SURTAX BEFORE THE DEADLINE SET". SAID DRAFT LAW NOW UNDER CONSTRUCTION IN ROME TO ATTACK ITALIAN INFLATION; WOULD INCLUDE AMONG OTHER THINGS A PARTIAL ASSUMPTION BY THE STATE OF CERTAIN SOCIAL SECURITY COSTS.

2. IMF NOTED THAT ITALY'S BOP IMPROVED IN 1975 BUT THAT REFLATIONARY POLICIES BEGAN TO HAVE ADVERSE IMPACT ON BOP ALMOST IMMEDIATELY. SAID FUND EXECUTIVE DIRECTORS TOOK NO ACTION ON 10 PERCENT SURCHARGE, WHICH WAS ADVERTISED BY ITALY AS TWO-WEEK PROGRAM WHILE MORE FUNDAMENTAL MEASURES DESIGNED. WITH RESPECT 7 PERCENT SURTAX WHICH EMERGED, FUND STATED THEY WOULD COMMENT FOR COMMITTEE'S INFORMATION ONLY, AS THEY UNDERSTOOD SURTAX WAS NOT PART OF GATT ARTICLE XV CONTEXT FOR CURRENT WP. FUND QUICKLY WENT ON TO SAY, HOWEVER, THAT "IN ALL PROBABILITY SURTAX IS AN EXCHANGE RESTRICTION AND A MULTIPLE CURRENCY RACTICE." SAID SURTAX WAS AN EMERGENCY MEASURE ONLY, NOT A SOLUTION, WILL HAVE COSTS. FUND AGREED WITH ITALY THAT IT SHOULD BE ELIMINATED EARLY AND SAID THERE WAS URGENT NEED FOR COMPREHENSIVE PROGRAM TO ATTACK ROOTS OF ITALY'S BOP PROBLEMS.

3. U.S. SAID WE REGRETTED THAT MEETING WAS TAKING PLACE IN A WORKING PARTY INSTEAD OF ESTABLISHED GATT BOP COMMITTEE BUT NONETHELESS THANKED CHAIRMAN FOR MAKING HIS TIME AVAILABLE TO WP. WE REGRETTED NEED FOR ITALY TO IMPOSE PRIOR DEPOSIT BUT RECOGNIZED ITALY'S BOP PREDICAMENT AND EXPRESSED SATISFACTION THAT ITALY HAD CHOSEN A MEASURE WHICH WAS APPLIED BROADLY IN NONDISCRIMINATORY MANNER AND WHICH IN OUR VIEW WAS MUCH LESS ONEROUS THAN MORE SEVERE RESTRICTIONS, SUCH AS QR'S. WE EXPRESSED U.S. PREFERENCE FIRST FOR NO TRADE RESTRICTIONS AT ALL AND SECONDLY FOR BROAD NONDISCRIMINATORY MEASURES SUCH AS PRIOR DEPOSITS AND (IN OTHER CASES) SURCHARGES. WE SOUGHT ITALIAN ESTIMATES OF EXTENT TO WHICH DEPOSITS HAD REDUCED EXCESS LIQUIDITY AND ALLEVIATED BOP SITUATION.

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WE ALSO NOTED THAT REPAYMENT OF EARLIER DEPOSITS HAS GENERALLY BEEN MATCHED BY NEW DEPOSITS AND WELCOMED EARLIER ITALIAN STATEMENT THAT A MORE FUNDAMENTAL PROGRAM WAS BEING DRAFTED. ITALY RESPONDED THAT WHILE NET EFFECT OF DEPOSITS NOT YET FELT, A TOTAL OF FOUR THOUSAND BILLION LIRA IN LIQUIDITY HAS BEEN SOAKED UP.

4. FORTUNATELY, MURPHY-GENEVA TELECON OF NOVEMBER 8

ANNOUNCING TRANSMISSION OF REFTEL (B) CAUGHT US JUST IN TIME. WE WERE THUS ABLE TO REINFORCE FUND VIEW THAT 7 PERCENT FOREIGN EXCHANGE SURTAX WAS NOT AN APPROPRIATE REMEDY. WE ASKED ELIMINATION AS SOON AS POSSIBLE AND URGED ACCELERATION OF BASIC CORRECTIVE MEASURES.

5. AUSTRIA, CANADA, SWITZERLAND, JAPAN, ROMANIA GENERALLY SUPPORTED U.S. VIEWS. CANADA WAS ESPECIALLY HELPFUL IN DOUBTING APPROPRIATENESS OF SURTAX AND IN SUGGESTING THAT PRIOR DEPOSIT SYSTEM IS INFLATIONARY.

6. NEW ZEALAND, PREDICTABLY, DEFENDED ITALY'S RIGHT TO BE EXAMINED IN A WP BUT JOINED IN REGRETTING ITALY'S RESORT TO RESTRICTIONS. FINLAND, WHICH HAS DUTIFULLY SUBMITTED ITS OWN BOP RESTRICTIONS TO BOP EXAMINATION, AGREED WITH U.S. THAT BOP COMMITTEE EXAM WOULD HAVE BEEN MORE APPROPRIATE.

7. EC SAID BOP COMMITTEE WAS LIMITED TO GATT ARTICLES XII AND XVIII MATTERS. WE SAID THIS NOT SO, THAT WE HAD CAREFULLY TRACED GENEALOGY OF BOP TERMS OF REFERENCE AND IT CLEAR THAT COUNCIL COULD REFER ANY BOP MEASURES IT DEEMED APPROPRIATE TO BOP COMMITTEE. FINLAND SUPPORTED. EC MUMBLED THAT COUNCIL HAD NOT CHOSEN TO DO SO.

8. WP REPORT WILL NOT BE CONSIDERED UNTIL NOVEMBER 17. WHILE WE DOUBT THAT UNANIMOUS, CLEAR-CUT RECOMMENDATIONS WILL EMERGE, WE ARE MUCH ENCOURAGED BY FACT THAT SURCHARGE WAS DISCUSSED AND FACT THAT IT CAME UNDER CONSIDERABLE PRESSURE. WE ALSO ENCOURAGED BY ITALY'S APPARENT RECOGNITION THAT DEPOSIT AND SURTAX SYSTEMS REPRESENT ONLY PASTE-UP AND THAT MORE FUNDAMENTAL CORRECTIVE PROGRAM IS A MATTER OF TIME URGENCY. WILL REPORT LIMITED OFFICIAL USE

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FURTHER IF ANYTHING UNUSUAL SHOULD EMERGE FROM REPORT SESSION.ABRAMS

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, NEGOTIATIONS, BALANCE OF PAYMENTS, FOREIGN EXCHANGE RATES, TAXES, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 NOV 1976
Decapton Date: 01 JAN 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976GENEVA08956
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760419-0975
From: GENEVA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761163/aaaacccrx.tel
Line Count: 156
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 273369, 76 STATE 275086
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 11 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11 MAY 2004 by BoyleJA>; APPROVED <28 JUL 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GATT WP ON ITALIAN PRIOR DEPOSIT MEASURES
TAGS: ETRD, IT, GATT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006